

VZCZCXRO4614
OO RUEHLMC
DE RUEHTG #0308/01 1211744
ZNR UUUUU ZZH
O 011744Z MAY 09
FM AMEMBASSY TEGUCIGALPA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 9624
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE IMMEDIATE
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC IMMEDIATE 0940
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
RUCPDOG/DEPT OF COMMERCE WASHDC IMMEDIATE
RUMIAAA/USSOUTHCOM MIAMI FL IMMEDIATE

UNCLAS SECTION 01 OF 03 TEGUCIGALPA 000308

SENSITIVE
SIPDIS

STATE FOR WHA/CEN, WHA/EPSC AND EEB/OMA

E.O. 12958: N/A

TAGS: [EFIN](#) [HO](#)

SUBJECT: GOH RELEASES ANTI-CRISIS PLAN

REF: A. TEGUCIGALPA 205

[1](#)B. TEGUCIGALPA 78

[1](#)1. (U) Summary: With little fanfare, the GOH last week released its plan for countering the local effects of the global economic and financial crisis. The plan largely recapitulates previously announced measures to direct credit on preferential terms to productive sectors, with emphasis on small and micro enterprises. The plan has attracted little press attention, and private sector groups are refraining from comment until they determine whether any of it is likely to come to fruition. Meanwhile, the GOH has still not submitted a budget to Congress for 2009. On a positive note, Finance Minister appears to have convinced President Zelaya to return to the negotiating table with the IMF. A Fund program, combined with enactment of a 2009 fiscal budget are crucial elements to maintain macroeconomic stability in a difficult and crisis-ridden year. End Summary.

The Anti-Crisis Plan

[1](#)2. (U) The plan is largely a repackaging of previously proposed schemes, most of which are struggling to get off the ground, to direct credit to activities that are expected to create jobs and alleviate poverty, including those to be financed with Venezuelan money under ALBA and Petrocaribe. It includes the previously announced idea for the Central Bank to create a 10 billion lempira (USD 529 million) trust fund at the Honduran Bank for Production and Housing (BANHPROVI). The trust fund would be used to support loans to the private sector under concessional terms -- 10 percent for seven years for large companies and 7 percent for seven years for small and micro enterprises. The plan also includes a somewhat vague proposal to induce private banks to put their excess reserves, which the GOH estimates total 22 billion lempiras (USD 1.16 billion) at the disposition of the productive sectors, with the GOH providing some loan guarantees for a portion of these funds.

[1](#)3. (U) Other key elements of the anti-crisis plan include:

-- 3 billion lempiras (USD 159 million) for "social" investments, including 2 billion (USD 106 million) for low-income housing and 600 million (USD 32 million) for agricultural small and micro enterprises; these amounts closely track the Venezuelan ALBA commitments to provide USD 100 million for BANHPROVI and USD 30 million for the Agricultural Development Bank (BANADESA);

-- 800 million lempiras (USD 42 million) in bonds to compensate landowners for properties to be confiscated and given to squatters;

-- Streamlining of environmental permits for investment projects;

-- Strengthening guarantees for depositors;

-- A 900 million lempira (USD 48 million) line of credit for paying public contractors and suppliers in the areas of health and micro-enterprise development;

-- Continue the current fuel-pricing policy, including the import price formula implemented in January 2007 over protests of the oil companies, to keep energy costs low; and

-- 14.1 billion lempiras (USD 746 million) for public investments; this includes the USD 80 million the Millennium Challenge Corp plans to disburse this year on road construction and improvements.

Reaction from Private Banks

14. (SBU) The Executive Director of the Honduran Banking Association (AHIBA) told EconCouns April 23 that these financial proposals had not been consulted with the private banks. She therefore had no details on the proposal to mobilize excess reserves, which she said were actually 14 billion lempiras (USD 741 million), not 22 billion. She said AHIBA was not commenting publicly on the plan, because the association doubts its proposals will move forward, at least until Congress comes up with its own plan.

15. (SBU) The AHIBA Executive Director added that the USD 50

TEGUCIGALP 00000308 002 OF 003

million out of a promised USD 100 million in bond proceeds received from Venezuela to date as part of Honduras's accession agreement to the Venezuelan-led Bolivarian Alternative for the Americas (ALBA) had not been channeled into low-income housing construction through BANHPROVI as stated in the agreement but had instead been distributed to various local projects through the "Red Solidaria" network, directed by President Zelaya's wife Xiomara Castro. She expected the same would be done with the second USD 50 million tranche. However, a source with access to the Finance Ministry told us all of the USD 50 million received to date from Venezuela for BANHPROVI, as well as the USD 30 million for BANADESA, was still sitting in accounts at the Central Bank.

Where Will the Money Come From?

16. (SBU) Confusion reigns about how these various credit schemes will operate. Trust funds for the ALBA and Petrocaribe cash are yet to be established, so the funds are sitting idle at the Central Bank. Although significant portions of the plan will rely on donor financing, including from the World Bank, IDB, MCC and Venezuela, the bulk will need to be financed out of domestic resources. The Central Bank may simply print money to create the 10 billion lempira BANHPROVI fund. Most of the proposed public investment would come from tax revenues and domestic borrowing. However, nearly five months into the current fiscal year, which began January 1, the GOH is yet to present a budget to Congress. Press reporting and Embassy sources indicate tax collections have slowed significantly compared with 2008, the GOH is having trouble placing bonds domestically and is raiding public employee pension funds to finance current expenditure.

In addition, it appears that Central Bank President Edwin Araque is gaining increased influence over GOH economic policy making over the more orthodox Finance Minister Rebecca Santos. Araque is insisting that bonds have maturities of no more than 12 months with coupon rates consistent with his low-interest-rate policies. As a result, a significant amount of public debt will need to be rolled over in early

February 2010, a week after the next President assumes office.

Honduras May Seek Negotiations with the Fund

¶7. (SBU) Finance Minister Rebecca Santos has been locked in a struggle with the populist rival Central Bank President Edwin Araque for control of GOH policymaking and for dealing with the crisis. Araque has so far been successful in blocking efforts to renew the Precautionary Stand By Arrangement that Honduras had and that expired on March 31. Araque has argued against program requirements on both monetary and exchange rate policy and in public has been harshly critical of the IMF. Nevertheless, Santos appears to have been successful in convincing influential bankers and industrialists that the most potent anti-crisis medicine would be to reach a successful deal with the IMF, particularly if it results in securing budget support. Santos has been engaged in a round of talks with U.S. Treasury and Fund officials in Washington and has lobbied President Zelaya on this issue. Santos told the Ambassador on April 29 that he had gotten Zelaya's approval to attempt to seek an IMF agreement, and has sent a letter to IMF Director for Central America Ramon Guzman requesting formal negotiations.

Comment

¶8. (SBU) The Anti-Crisis plan is so far not generating much attention or debate because of a plethora of other issues competing for public attention, including the N1H1 flu epidemic, the corruption scandal at the state telecom company and President Zelaya's controversial proposal to hold a referendum on rewriting the constitution. There also appears to be some doubt in the private sector that the plan will go anywhere, given current tensions between the President and the Congress and Zelaya's lame-duck status -- he has just nine months left in his term. Nonetheless, for the more orthodox thinkers in the GOH, being able to secure approval of a sound fiscal budget for 2009, hopefully to be presented to Congress in May, as well as the launch of serious

TEGUCIGALP 00000308 003 OF 003

negotiations with IMF are two important steps on the road to establishing a serious macroeconomic framework to deal with the global crisis. These initiative could help to counter the more populist instincts of the Zelaya Administration, which seeks to leave most of the heavy economic policy heavy lifting to the new economic team that will take over in

¶2010. End Comment.
LLORENS